

Procedure M-16 VULNERABILITY ASSESSMENT (Milestone #M-16)

Purpose

To assess the probability that material noncompliance and abuse could occur and not be prevented or detected in a timely manner by the internal controls in place and to reflect this assessment of vulnerability in the extent of audit testing to be performed.

Background

Vulnerability means the probability that material noncompliance and abuse could occur and not be prevented or detected in a timely manner by the internal controls in place.

Vulnerability is estimated by considering both the threat's inherent risk and the condition of the internal control.

Table A (Threat Inherent Risk Rating Guide) describes the circumstances that determine whether the threat's inherent risk is high, moderate, or low (See Procedure No. [5-05G-1](#)).

Table B (Internal Control Rating Guide) describes circumstances that determine whether the internal control is weak, adequate, or strong (See Procedure No. [5-05G-2](#)).

Table C (Vulnerability Assessment and Testing Extent Table) shows the relationship among (a) the threat's inherent risk, (b) the internal control's condition, and (c) vulnerability and testing extent (See Procedure No. [5-05G-3](#)).

NOTE: Vulnerability equals testing extent because testing extent directly corresponds to the level of vulnerability, i.e., the higher the vulnerability rating, the greater the extent of audit testing.

Procedure

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| Audit Staff | <ol style="list-style-type: none">1. Update the List of Threats and Controls.2. Using Table A (Threat Inherent Risk Rating Guide), rate each threat.3. Using Table B (Internal Control Rating Guide), rate the corresponding internal controls for each threat.4. Using Table C (Vulnerability Assessment and Testing Extent Table), assess the program's vulnerability and testing extent for each internal control.5. Identify the audit procedure to test each internal control in the list (See example in Procedure No. 5-05G-4).6. If an internal control is not to be tested, explain why not.7. Submit the Threats, Controls, and Vulnerability Assessment file to the Supervising Auditor and the City Auditor. |
| Supervising Auditor and City Auditor | <ol style="list-style-type: none">8. Review and approve the Threats, Controls, and Vulnerability Assessment. |
| Audit Staff | <ol style="list-style-type: none">9. File the Threats, Controls, and Vulnerability Assessment in the audit workpapers. |

Table A
Threat Inherent Risk Rating Guide

| The threat's inherent risk is | if |
|--|--|
| HIGH | <p>Noncompliance or abuse may result in losses to the City of marketable assets (e.g., cash, securities, equipment, tools, supplies) valued at more than \$50,000.</p> <p>Noncompliance or abuse will likely expose the City to adverse criticism in the eyes of its citizens.</p> <p>Incentives of noncompliance or abuse outweigh the potential penalties.</p> |
| MODERATE | <p>Noncompliance or abuse may result in losses to the City of marketable assets (e.g., cash, securities, equipment, tools, supplies) valued from \$25,000 to \$50,000.</p> <p>Noncompliance or abuse will result in inefficient operations or substandard service to the citizens.</p> <p>Incentives of noncompliance or abuse are approximately equal to the potential penalties.</p> |
| LOW | <p>Noncompliance or abuse may result in losses to the City of marketable assets (e.g., cash, securities, equipment, tools, supplies) valued at less than \$25,000.</p> <p>Noncompliance or abuse will result in a disregard of an administrative procedure or authoritative standard.</p> <p>The potential penalties outweigh the incentives of noncompliance or abuse</p> |

Table B
Internal Control Rating Guide

| The internal control is | if |
|------------------------------------|---|
| WEAK | <p>Management and/or staff demonstrate an uncooperative or uncaring attitude with regard to compliance, recordkeeping, or external review.</p> <p>Prior audits or the preliminary survey has disclosed significant problems.</p> <p>The Risk Matrix reveals that adequate and/or sufficient internal control techniques are not in place.</p> <p>Documentation of procedures is lacking or of little use.</p> |
| ADEQUATE | <p>Management and staff demonstrate a cooperative attitude with regard to compliance, recordkeeping, and external review.</p> <p>Prior audits or the preliminary survey has disclosed some problems but management has implemented remedial action and has satisfactorily responded to audit recommendations.</p> <p>The Risk Matrix reveals that adequate and/or sufficient internal control techniques are in place.</p> <p>Although deficient or outdated, documentation of procedures is still useful or can easily be updated.</p> |
| STRONG | <p>Management and staff demonstrate a constructive attitude, including an eagerness to anticipate and forestall problems.</p> <p>Prior audits and the preliminary survey have not disclosed any problems.</p> <p>The Risk Matrix reveals that numerous and effective internal control techniques are in place.</p> <p>Procedures are well documented.</p> |

Table C
Vulnerability Assessment and Testing Extent

| Inherent Risk | I. Internal Controls | Vulnerability and Testing Extent |
|----------------------|------------------------------------|---|
| High | Weak Adequate Strong | High Moderate to High Low to moderate |
| Moderate | Weak Adequate Strong | Moderate to High Moderate Low |
| Low | Weak Adequate Strong | Low to moderate Low Very low |